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**United Canso
Oil & Gas Ltd.**

1972 Annual Report

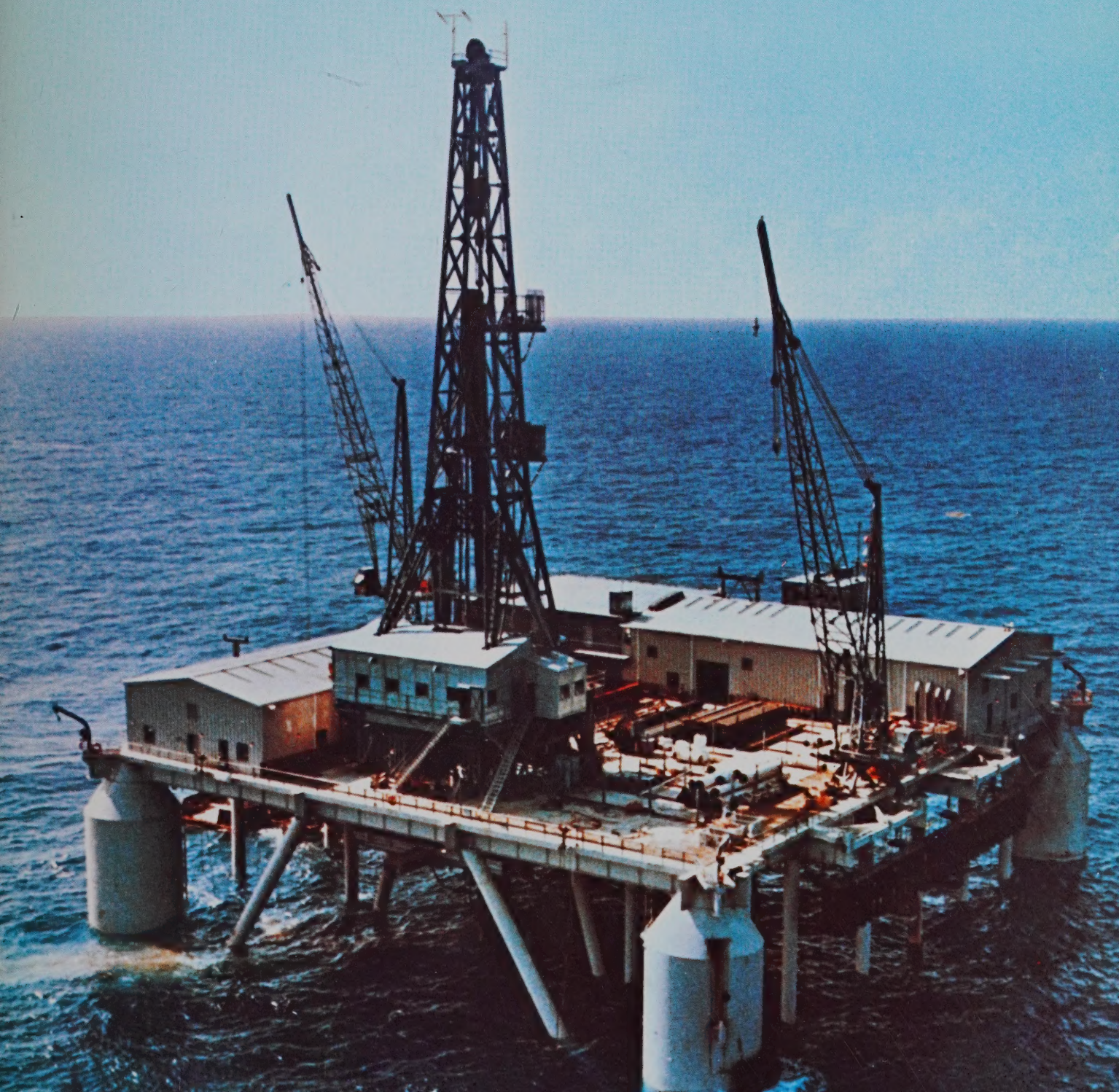
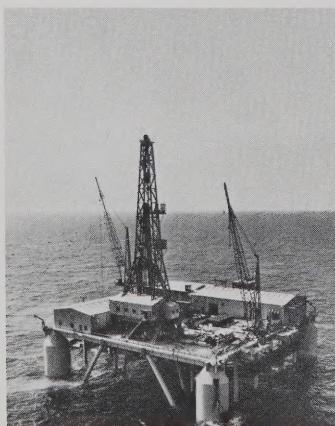


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BLUEWATER NO. 3 (front cover), Santa Fe International's semi-submersible drilling rig, at the site of the Halibut Group's oil discovery on Block 211/18 in the North Sea.

To the Shareholders

Highlighting the accomplishments of the 1972 exploratory program was the Company's participation in what appears to be a major oil discovery on the newly-acquired North Sea concession block. Elsewhere, exploratory ventures on Company-interest properties in western Canada resulted in discoveries of three oil wells and two gas wells.

 Diversification of exploratory effort again is being stressed by the Company during the current year. While United Canso continues to commit the major portion of its exploratory budget to property interests in both the North Sea and the Irish Sea, extensive drilling programs also are planned for areas of Wyoming and central Australia, which, under existing agreements with others, will be carried out at no cost to the Company.

Canada's Arctic Islands continue to represent an area of high exposure for the Company amid mounting indications that the Arctic Archipelago may contain some of the most prolific and important gas reserves within the North American continent. It is anticipated that broad programs of exploratory drilling now under way and planned by others on acreage offsetting United Canso's property interests in the Arctic Islands will furnish valuable information with respect to the Company's holdings in this area.

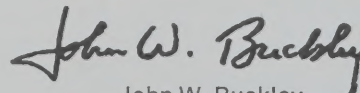
An event having far-reaching implications for the Company was the conclusion during the past year of an agreement with Pacific Lighting Gas Development Company, of Los Angeles, for development of the Palm Valley gas field in central Australia, owned 24.38% by United Canso, the reserves of which are estimated to range up to 10 trillion cubic feet.

The Palm Valley project, the full implementation of which is subject to approvals of Australian and United States government agencies, envisions first proving up the field's reserves, and thereafter the laying of a pipeline to an Australian ocean port, the building at the pipeline's coastal terminus of a gas liquefaction complex, and the construction of a cryogenic tanker fleet for shipment of liquefied natural gas (LNG) to California markets. Cost to Pacific of implementing the over-all project is estimated at \$1.3 billion. Delineation drilling, representing the first stage of the development program, is now underway.

The Company's gross revenues at \$3,162,586 attained a record high level for the fiscal year ended September 30, 1972, representing an increase of 2.9% over gross revenues in the amount of \$3,074,256 reported for the prior year. Net income for the 1972 fiscal year totaled \$464,375, equal to 8¢ per share, compared with a net loss of \$818,331, or 14¢ per share, sustained in the previous year.

As United Canso moves aggressively into the 1973 fiscal year, we of management wish to register our confidence in the Company's future growth and progress. With the continued support of the Shareholders and the dedication of the Company's loyal, competent staff, we look forward to further strong gains by United Canso in the year ahead.

On behalf of the Board of Directors,


John W. Buckley,
President

Calgary, Alberta
January 15, 1973

Scope of Operations

United Canso Oil & Gas Ltd. in recent years has combined oil and gas production in Alberta, British Columbia and Saskatchewan with participation in widely-ranging petroleum search programs on Company-interest properties in the Arctic Islands, Manitoba, Nova Scotia, the Yukon and Northwest Territories in Canada; Wyoming and the Alaskan North Slope in the United States; and the Northern Territories of Australia. The Company also participates in mineral exploration in Canada and in Australia. During the past year, United Canso continued further to diversify its already broad and intensive petroleum search effort by adding significant participations in the British sectors of the North Sea and Irish Sea to pre-existing property interests extending over much of the globe. Overall, management regards the 1973 exploratory program, now under way, as potentially the most significant in United Canso's history.





ACREAGE SUMMARY — SEPTEMBER 1972

	<i>Gross Acres</i>	<i>Net Company Interest</i>	
		<i>Acres</i>	<i>%</i>
Petroleum			
CANADA			
Arctic Islands (Panarctic Area)	6,814,030	906,249	13.3
Foxe Basin	123,937	117,740	95.0
Yukon & Northwest Territories	958,764	698,450	72.8
Western Canada	1,197,768	215,192	17.8
Nova Scotia	91,951	22,988	25.0
UNITED STATES			
Alaska	942,339	235,585	25.0
Wyoming, Montana	154,591	88,978	57.5
AUSTRALIA			
Northern Territory	12,693,120	3,936,064	31.0
UNITED KINGDOM			
Cardigan Bay	62,838	31,419	50.0
North Sea	49,018	9,804	20.0
VENEZUELA	21,000	—	—
Total Petroleum	<u>23,109,356</u>	<u>6,262,469</u>	<u>27.1</u>
Minerals			
Australia	3,795,200	112,192	3.0
Canada	11,650	2,330	20.0
Total Minerals	<u>3,806,850</u>	<u>114,522</u>	<u>3.0</u>
GRAND TOTAL	<u><u>26,916,206</u></u>	<u><u>6,376,991</u></u>	<u><u>23.7</u></u>



Operations Review

Petroleum Exploration

United Kingdom

The United Kingdom offshore play is rapidly becoming a primary area of petroleum search activity. The North Sea in particular has become the world's current focal point for oil and gas exploration. Since the discovery of oil at Ekofisk in 1969, a total of 16 oil fields has been found beneath North Sea waters, with aggregate reserves estimated at over 12 billion barrels. Of lesser significance currently but holding great promise are the ocean bottoms in the Irish Sea off Britain's west coast.

Interests are presently held by the Company in two Production Licenses, one in the North Sea and the other in the Irish Sea, awarded by the United Kingdom Department of Trade and Industry in 1971 and 1972, respectively, and granting United Canso and its partners exclusive rights to search for and produce oil or gas on lands included within each license.

North Sea

In March 1972, United Canso Oil & Gas (U.K.) Limited and partners, now referred to as the Halibut Group, were awarded Block 211/18, a 49,000-acre block, in a highly prospective area of the British sector of the North Sea which has since proven to be oil prolific. This acreage is located about 85 miles northeast of the Shetland Islands, about seven miles east of the "Golden" Block purchased by the Shell-Esso team for an amount in excess of \$50 million, and 16 miles north of the Brent oil discovery reported by Shell-Esso to contain recoverable reserves of one billion barrels. A recent well drilled near the Golden Block has been indicated an oil discovery which appears to be commercial.

Upon being awarded Block 211/18, the Halibut Group immediately carried out a detailed seismic program which indicated the presence of structures favorable for the accumulation of hydrocarbons. The group had previously contracted the Santa Fe International semi-submersible drilling rig, the Bluewater No. 3, for a two-year period with options to renew. This rig was refitted in the United States and towed across the Atlantic for drilling on Block 211/18.

The Halibut Group's first well on Block 211/18 commenced drilling on June 21, 1972, and successfully tested oil from a pay zone exhibiting excellent porosity and permeability characteristics. The test, which is indicative of the potential of this well, flowed 37° API gravity crude at an average rate of 5,293 barrels of oil per day through a ½-inch choke in the bottom hole assembly.

Further exploration will be required on Block 211/18 and adjoining blocks to delineate the reservoir and the extent of the economic viability of this discovery. Additional drilling is planned for the 1973 summer season on Block 211/18.



North Sea Area

Cardigan Bay

A detailed marine program was carried out by United Canso as operator over Block 106/28 in early October 1972. An interpretation of the resultant data is currently in preparation, with preliminary indications of two interesting structures existing within the block. A decision on drilling will be made after final geophysical results are available for assessment.

As reported last year, interest in the entire Irish Sea area has burgeoned since an important gas discovery was made in 1971 by Marathon Oil Company in Irish waters, 100 miles southwest of Cardigan Bay. This well is reported to have tested several zones at depths of about 3,000 feet, and to have established a flow rate of 27.6 million cubic feet of gas per day through a restrictive choke.

Australia

Negotiations centering on a major project to develop the potentially large gas reserves underlying the Palm Valley field in central Australia were successfully concluded in June 1972 between representatives of the Palm Valley field owners (United Canso, 24.38%) and the Pacific Lighting group of Los Angeles, Calif.

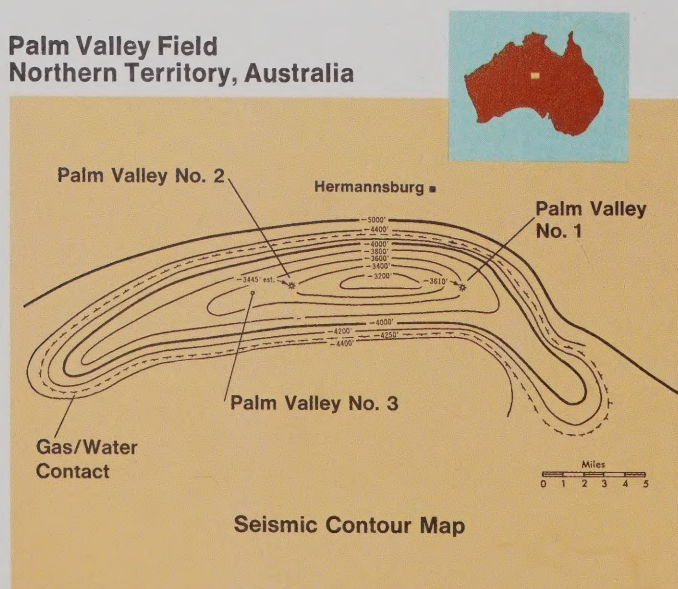
The Palm Valley development project, which is expected to require five to six years for completion, is planned to supply the equivalent of 640 million cubic feet per day of natural gas from the Palm Valley field, its export in liquid form (LNG) via cryogenic tankers to regasification terminals to be constructed in the Los Angeles area, and its subsequent delivery to more than 3.2 million customers of the Pacific Lighting group in central and southern California.

Projected total sales over the 25-year gas supply agreement may exceed \$1.3 billion, or an average of approximately \$54 million a year, assuming the proposed program is fully implemented. The first phase of the project, consisting of a delineation drilling program, was commenced during January 1973. If such drilling establishes reserves sufficient to support production at the level of magnitude required to mount the Pacific Lighting program, the second development phase would become effective. Funds for drilling to establish the Palm Valley reserves are being advanced by the Pacific Lighting group.

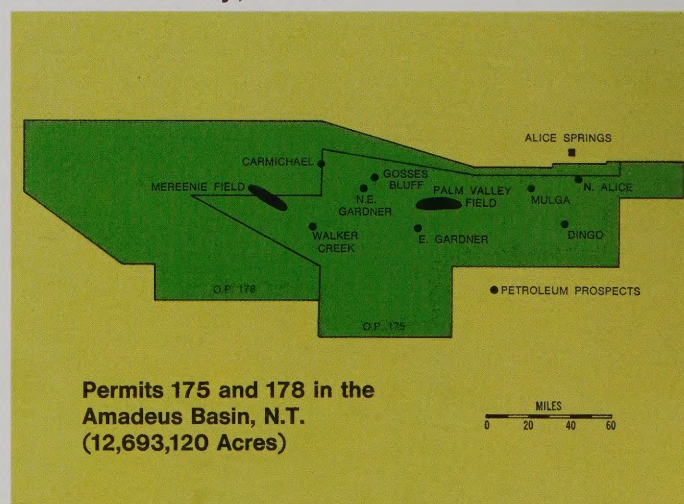


Cardigan Bay Area

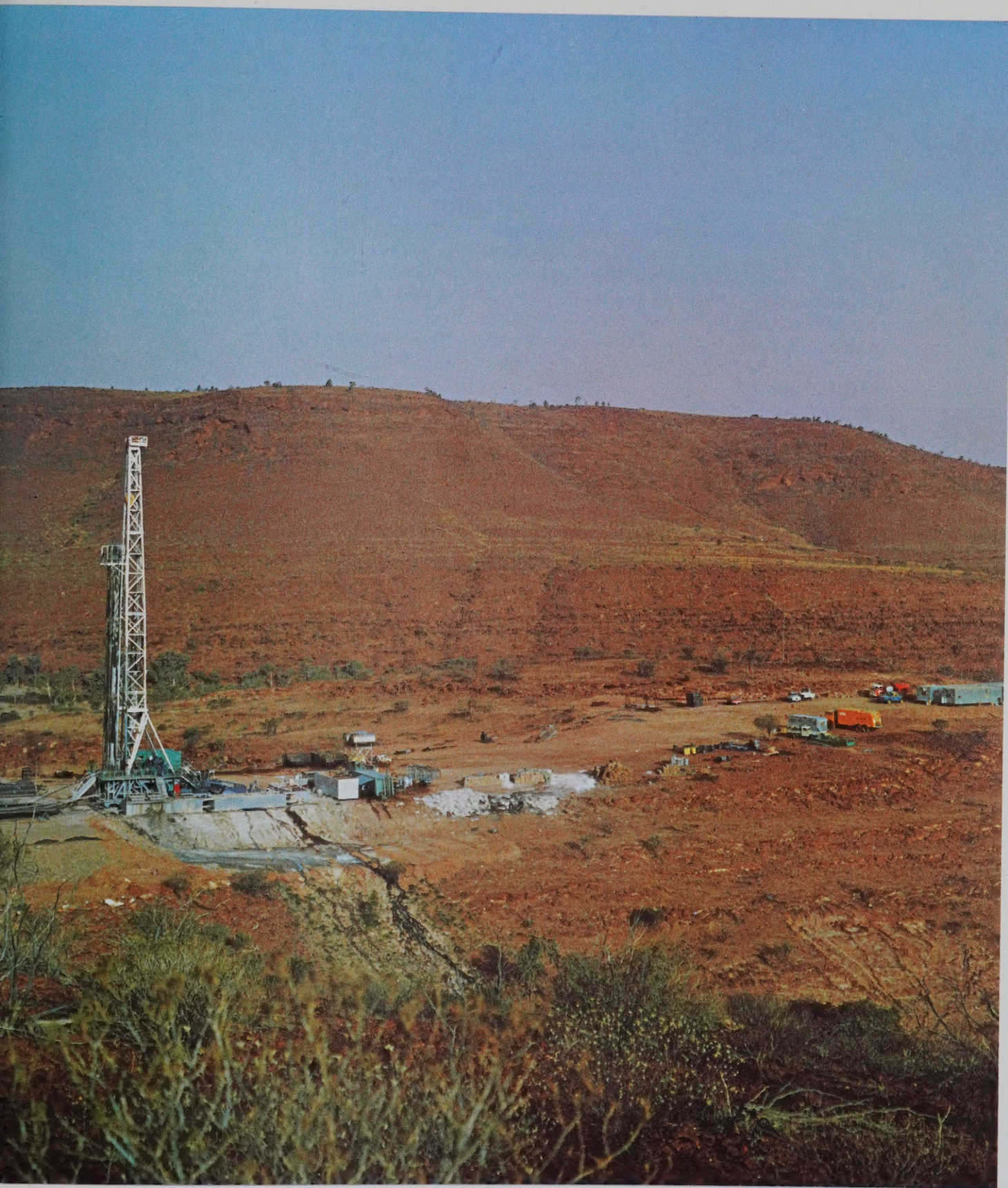
Palm Valley Field Northern Territory, Australia



Amadeus Basin Permits Northern Territory, Australia



Permits 175 and 178 in the
Amadeus Basin, N.T.
(12,693,120 Acres)



Drilling operations underway in the Palm Valley gas field on Oil Permit No. 175, Northern Territory of central Australia.

North America Canada

Northwest Territories Confirmed discoveries of oil and gas in economic or near-economic quantities in the MacKenzie River Delta have given the industry new optimism about petroleum prospects in this region of the Northwest Territories. As a result interest has increased in all prospects lying within reasonable distance of probable pipeline routes to southern Canada.

Maunoir Area Last year four of United Canso's easterly Maunoir permits, located 150 miles northeast of Norman Wells, N.W.T., were optioned to Imperial Oil Limited. Imperial carried out an extensive seismic program over the lands and until August of 1973 has the election to drill, carry out additional seismic, or relinquish its option. These permits contain a number of anticlinal structures, and stratigraphic trap possibilities also exist within the Lower Paleozoic sequence.

Arctic Islands The 1972-1973 winter is expected to be the most active drilling period yet witnessed in Canada's Arctic Islands. Test wells are





Sverdrup Island Area

scheduled on a number of individual islands with the greatest concentration being on Melville, Ellef Ringnes, Axel Heiberg and Ellesmere Islands.

Panarctic Oils Ltd., the industry-government consortium which holds varying interests in all of United Canso's Arctic Islands acreage, has carried out extensive seismic programs during the past year and will have five drilling rigs active during the winter months. Some 250 major structures with considerable vertical and areal closure are reported to have been mapped. To date, Panarctic's drilling has yielded major gas discoveries at Drake Point (Melville Island), King Christian Island and Kristoffer Bay (Ellef Ringnes Island), and of considerable significance, 1972 saw the discovery of oil, though in apparently non-commercial quantities, on both Ellesmere and Thor islands.

Two wells were drilled on United Canso-interest properties in the Arctic Islands during 1972. These included a deep test of Dumbbells Dome by Gulf Oil on Ellef Ringnes Island and a shallow well drilled by Sun Oil on Russell Island, immediately south of Prince of Wales Island. Both ventures were abandoned.

Of more immediate interest, the "Drillarctic" consortium, comprising a number of companies including Cities Service and Getty, and operated by Horn River Resources, will drill a test within one mile of Canso's 20% interest properties at Mid Fiord on Axel Heiberg Island.

During the summer of 1972 the Company participated in a joint seismic program operated by Panarctic over Isaacson Dome, a prominent structure in the western sector of the Ellef Ringnes block. A test well may be drilled on this feature in 1973.

Western Canada United Canso participated in 14 wildcat tests in the western Canadian provinces during fiscal 1972. Nine of these were drilled at no cost to the Company and represent earning wells drilled on Company lands under farmout agreements granted by United Canso.

The Company plans to pursue an active drilling program throughout the 1973 fiscal year on western Canadian prospects. As a prelude to this, four wells were under way or scheduled for immediate drilling in Alberta on United Canso properties at the beginning of the 1973 fiscal year.

United States

Alaska As in the previous year, petroleum exploration in Alaska during 1972 was essentially dormant. This was a result of legal and legislative uncertainties which continue to plague the Alaskan oil industry. Some advances were made, notably in settling the long-standing Alaskan natives' claim, but court appeals by various environmental groups continue to delay construction of the Trans-Alaskan Pipeline, despite governmental approval of the project.

The "land freeze" imposed by the United States Government has been continued pending settlement of all outstanding issues. As a consequence, the status of prior filing rights on 942,339 acres of Federal land south and west of the Prudhoe Bay field in which United Canso holds an interest still remains to be determined.

Wyoming Renewed interest in United Canso's Parkman block in the western part of the Powder River basin has developed as a result of recent oil discoveries in the Sussex sandstone in the House Creek field immediately east of our holdings. This sand unit occurs at a depth some 3,000 feet shallower than the Muddy sandstone which is productive of oil in the area.

Three Sussex ventures offsetting United Canso leases are currently under way by another company and three more tests, including one Muddy sand probe, are tentatively scheduled for drilling during the next year on United Canso's land holdings in this area.

At left, typical winter drilling scene in the Arctic Islands of Canada. (Photo courtesy of Panarctic Oils Ltd. — Bill Onions, Photographer).

Mineral Exploration

Canada

United Canso participates in mineral exploration through its direct mineral concession ownership and interest in Borealis Exploration Limited. Borealis did not conduct any new field programs during fiscal 1972.

At present a number of European firms are evaluating prospects for the exploitation and development of the Melville Peninsula iron deposits. Studies by the Canadian Government have indicated that sea transportation of the ore would not present any obstacles.

At the present time Borealis holds a total of 483 claims of approximately 50 acres each:

<u>Area</u>	<u>No. of Claims</u>	<u>Prospective For</u>
Baffin Island	35	Base metals, radioactive minerals.
Hood River	215	Copper, other base metals.
Melville Peninsula	233	Iron ore.

Production and Development

Oil

United Canso's oil production during the past fiscal year was 958,035 barrels before deduction of royalties. This production rate of 2,625 barrels of oil per day represented a 1.2% decrease from the previous year's rate.

As they have been for many years, the Company's most productive oil properties last year were in west Saskatchewan's Smiley-Dewar field. United Canso's production from its wells in this field averaged 683 barrels of oil per day, a 7.8% decrease from the previous year. Peak production resulting from the successful waterflood project was attained a few years ago.

Production from United Canso's Innes leases in southeast Saskatchewan was 4.5% higher than previous year's production. Successful workovers resulted in an average production rate of 610 barrels of oil per day, making this area once again the Company's second most productive.

Production rates of Boundary Lake Unit No. 1 continued to increase during the past year. Infill drilling, begun in 1970, continued through 1971 and 1972. A total of 23 infill wells have been added to the Unit wells that were drilled initially on 160-acre spacing. The accelerating of the recovery of reserves by drilling infill wells has created favorable economics in Boundary Lake Unit No. 1. Further infill drilling is planned. United Canso's share of Boundary Lake Unit No. 1 production averaged 548 barrels of oil per day last year, up 5.4% from the previous years' rate.

During the past year enlargements of the North Eureka Unit, the South Eureka Unit and Boundary Lake Unit No. 1 involved United Canso-interest wells that were included in these units. Simplified operating procedures should contribute to greater efficiency.

Gas

United Canso's gas production for the fiscal year was 5.5 billion cubic feet before deduction of royalties. The rate of 15.2 million cubic feet per day is about 2.6% lower than last year's rate. The effect of the declining total gas production rate was offset somewhat by the 4.0¢/Mcf price increase for gas produced from Pakowki, Pendant d'Oreille and Smith-Coulee wells.

United Canso's participation in the Coleville-Smiley Viking Sand Gas Unit increased to 26.67188% as a result of a Unit enlargement. Some additional Company acreage was included in the Unit at that time (effective date of Unit enlargement: April 1, 1972).

Successful conclusion of negotiations to market the previously shut-in Wainwright reserves will result in deliveries of this gas to Alberta Gas Trunk Line Company's gathering system commencing in 1973.

United Canso Oil & Gas Ltd. (A Canadian corporation)

Consolidated Balance Sheet

(Expressed in Canadian dollars)

September 30, 1972 and 1971

ASSETS

Current assets:

	1972	1971
Cash	\$ 92,230	\$ 104,911
Bank deposit receipts and accrued interest	4,170,836	3,568,157
Accounts receivable	418,199	425,690
Refundable deposits	51,729	67,610
Prepaid expenses and other assets	73,697	48,506
Total current assets	4,806,691	4,214,874

Investments and advances:

Australian companies:

United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 40% of capital stock, at equity in net assets (\$256,911), and advances	690,281	666,036
Magellan Petroleum (N.T.) Pty. Ltd., 30% of capital stock, at equity in net assets (\$710,326 and \$718,301, respectively), and advances	1,457,202	1,323,149
Magellan Petroleum (Qld.) Pty. Ltd., 20% of capital stock, at equity in net assets (\$113,076), and advances	—	134,247
	2,147,483	2,123,432

Borealis Exploration Limited, at cost:

8% unsecured debentures, maturing March 31, 1978 — interest accruing thereon after March 31, 1973	225,000	225,000
3.81% and 4.19% of common stock	84,000	84,000

PXP Steam Power Units, Ltd., 50% of capital stock, at equity, and advances of \$40,805

40,807	—
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Smiley Gas Conservation Limited, 26% of capital stock, at cost, and demand notes of \$39,000 and \$45,500, respectively

39,260	45,760
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Property and equipment:

Oil, gas and mineral interests, at cost or less:

Producing (less depletion of \$3,639,669 and \$3,487,387, respectively)	1,231,651	1,386,939
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Nonproducing:

Canada	1,776,945	1,864,907
United States	402,152	380,366
Venezuela (less amortization of \$89,306 and \$74,422, respectively)	171,171	186,055
United Kingdom	143,549	117,321
	2,493,817	2,548,649

Well costs and gathering systems, at cost:

Producing (less depreciation and amortization of \$5,839,007 and \$5,458,507, respectively)	2,124,390	2,345,942
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In process and standing (not presently producing):

United Kingdom	588,627	—
Other	238,904	284,847

Land, buildings and equipment, at cost (less depreciation of \$175,622 and \$175,196, respectively)

44,402	39,934
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\$14,065,032	\$13,299,377
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities:

Trade	\$ 302,740	\$ 364,355
The Catawba Corporation	39,026	13,528
Magellan Petroleum Corporation	23,707	12,939
Total current liabilities	365,473	390,822

Deferred income	9,000	29,550
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Shareholders' equity:

Capital stock, par value \$1 per share:

Authorized — 8,000,000 shares		
Outstanding — 5,763,902 and 5,698,644 shares, respectively	5,763,902	5,698,644

Capital in excess of par value	15,499,304	15,217,383
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21,263,206	20,916,027
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Accumulated deficit	7,572,647	8,037,022
	13,690,559	12,879,005

Commitments and contingent liabilities (Note 3)

\$14,065,032	\$13,299,377
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On behalf of the Board: s/s John W. Buckley, *Director*; s/s Roland J. Richardson, *Director*

The accompanying notes are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

(Expressed in Canadian dollars)

Year ended September 30, 1972 and 1971

	<u>1972</u>	<u>1971</u>
Source of working capital:		
Net income (loss)	\$ 464,375	\$ (818,331)
Charges against revenues not involving outlay of working capital in the current year:		
Depletion, depreciation and amortization	625,063	645,727
Sales, retirements and abandonments of property and equipment	123,961	1,327,444
Adjustment of investment in the Australian companies to equity in net assets at end of year	121,051	16,132
Amortization of deferred income	(20,550)	(23,100)
Working capital provided from operations	1,313,900	1,147,872
Redemption of Smiley Gas Conservation Limited notes	6,500	6,500
Proceeds from exercise of stock purchase warrants	302,179	—
Proceeds from exercise of stock options	45,000	—
	<u>1,667,579</u>	<u>1,154,372</u>
Disposition of working capital:		
Additions to property and equipment	864,504	794,474
Investments in and advances to the Australian companies	145,102	98,382
Investments in and advances to PXP Steam Power Units Ltd.	40,807	—
	<u>1,050,413</u>	<u>892,856</u>
Increase in working capital	<u>\$ 617,166</u>	<u>\$ 261,516</u>
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	\$ (12,681)	\$ (41,181)
Bank deposit receipts and accrued interest	602,679	432,833
Accounts receivable	(7,491)	8,352
Refundable deposits	(15,881)	17,436
Prepaid expenses and other assets	25,191	(1,593)
	<u>591,817</u>	<u>415,847</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(25,349)	154,331
	<u>(25,349)</u>	<u>154,331</u>
Increase in working capital	<u>\$ 617,166</u>	<u>\$ 261,516</u>

The accompanying notes are an integral part of this statement.

Consolidated Statement of Income (Loss) and Accumulated Deficit

(Expressed in Canadian dollars)

Year ended September 30, 1972 and 1971

	<u>1972</u>	<u>1971</u>
Revenues:		
Oil Sales	\$2,198,505	\$2,173,030
Gas Sales	598,465	574,125
Royalties	87,832	83,346
Interest and miscellaneous	<u>277,784</u>	<u>243,755</u>
	<u>3,162,586</u>	<u>3,074,256</u>
Cost and expenses:		
Geological and geophysical costs	100,520	279,777
Lease and permit rentals	147,810	185,462
Production costs	756,107	712,877
Depletion and amortization	443,967	460,956
Depreciation	181,096	184,771
Dry holes and abandonments (including \$914,004 in the Cold Lake area in fiscal 1971)	313,016	1,490,535
Gain on sales of property and equipment	(4,176)	(1,306)
General and administrative expenses	638,820	563,383
Adjustment of investment in the Australian companies to equity in net assets at end of year	<u>121,051</u>	<u>16,132</u>
	<u>2,698,211</u>	<u>3,892,587</u>
Net income (loss)	464,375	(818,331)
Accumulated deficit at beginning of year	<u>8,037,022</u>	<u>7,218,691</u>
Accumulated deficit at end of year	<u>\$7,572,647</u>	<u>\$8,037,022</u>
Net income (loss) per share based on average number of shares outstanding during the year	<u>\$.08</u>	<u>\$(.14)</u>

Consolidated Statement of Capital Stock and Capital in Excess of Par Value

(Expressed in Canadian dollars)

Year ended September 30, 1971 and 1972

	<i>Number of shares</i>	<i>Capital stock, \$1 par value</i>	<i>Capital in excess of par value</i>	<i>Total</i>
Balance at September 30, 1970 and 1971	5,698,644	\$5,698,644	\$15,217,383	\$20,916,027
Proceeds from exercise of stock purchase warrants	57,758	57,758	244,421	302,179
Proceeds from exercise of stock options	<u>7,500</u>	<u>7,500</u>	<u>37,500</u>	<u>45,000</u>
Balance at September 30, 1972	<u>5,763,902</u>	<u>\$5,763,902</u>	<u>\$15,499,304</u>	<u>\$21,263,206</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 1972

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of United Canso Oil & Gas Ltd. (United Canso) and its wholly-owned subsidiaries, Canso Oil & Gas, Inc. (Canso Oil & Gas) and United Canso Oil & Gas (U.K.) Ltd. (see Note 3), hereafter referred to collectively as the Company. Noncurrent accounts of Canso Oil & Gas and United Canso Oil & Gas (U.K.) Ltd. were translated into Canadian dollars at historical rates and working capital accounts were translated at year-end rates.

Realization of investments and advances (see Note 2) and of the investment in nonproducing property and equipment aggregating \$5,857,898 and \$5,311,688 at September 30, 1972 and September 30, 1971, respectively, is dependent upon future developments, since the properties represented by these assets are substantially unexplored or undeveloped.

The Company carries its investments in the Australian companies at equity in net assets.

Depletion is computed by the unit-of-production method applied to the amounts assigned to the producing portion of interests retained in each original permit area. Depreciation of well equipment and amortization of intangible drilling costs are computed by the unit-of-production method based on estimated reserves available to all existing wells in each field. Depreciation of buildings and equipment is provided on the straight-line method at rates based on the estimated useful lives of the various classes of assets. The net cost of abandoned wells which had previously been producing is charged against the accumulated depreciation and amortization account of the remaining wells in the producing area.

For Canadian federal income tax purposes, United Canso is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related depletion, amortization and depreciation provisions reflected in the accounts. As a result, no Canadian income taxes are payable in respect of income reported for fiscal 1972, and accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

	<u>September 30,</u>	
	<u>1972</u>	<u>1971</u>
Drilling, exploration and lease acquisition costs	\$9,420,000	\$10,320,000
Undepreciated capital costs	910,000	1,140,000

The Canadian Institute of Chartered Accountants recommends that for all fiscal years commencing on or after January 1, 1968, the tax allocation basis of accounting be used for all differences in the timing of deductions for tax and accounting purposes. However, it is not general practice in the oil and gas industry in Canada to require tax allocation accounting with respect to timing differences for drilling, exploration and lease acquisition costs. Also, the American Institute of Certified Public Accountants does not, at the present time, require tax allocation accounting with respect to intangible development costs in the oil and gas industry. Accordingly, no provision has been made in the accounts of United Canso for income taxes deferred with respect to timing differences involving such costs. With respect to depreciation, the amounts provided in the accounts to September 30, 1972 have equaled the capital cost allowances claimed for income tax purposes.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income (loss), during fiscal 1972 deferred income taxes of \$196,000 (\$76,000 in fiscal 1971) would have been provided and net income (loss) for the year would have been reduced (increased) accordingly. However, on a cumulative basis to September 30, 1972, the amounts charged in the accounts have exceeded those claimed for income tax purposes.

2. Investments and advances

United Canso acquired a substantial portion of its interest in the Australian companies from Magellan Petroleum Corporation (Magellan) in September 1963. A substantial interest in the Australian companies is held (directly or indirectly) by Magellan and Pantepec International, Inc. (see Note 4).

The Australian companies have interests in petroleum and mineral exploration concessions and permits throughout Australia where exploratory activities are in progress. In connection with these activities, the Australian companies have entered into agreements with various companies covering exploration of certain property interests held. Under these agreements the various companies have earned or may earn up to a 50% working interest in such property interests.

Certain Australian mineral interests were abandoned during fiscal 1972 and 1971 resulting in reductions of \$121,051 and \$16,132, respectively, in United Canso's equity in net assets of the Australian companies; in addition, in 1972 the entire advance of \$22,421 to Magellan Petroleum (Qld.) Pty. Ltd. was written off following that company's relinquishment of

all properties. United Canso's equity in the combined net assets (adjusted to cost) of the Australian companies was \$967,237 and \$1,088,288 at September 30, 1972 and 1971, respectively. These net assets consist primarily of deferred drilling, geological, geophysical and administrative costs.

Borealis Exploration Limited (Borealis), in consideration of the Company's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of \$225,000 and agreeing to assist in maintaining Borealis' books and records at the Company's expense for the period ending March 31, 1972, issued to the Company 90,000 fully-paid and nonassessable shares of its common stock. These shares were valued at \$84,000, based on the above-mentioned considerations, which amount has been treated as deferred income in the accompanying consolidated financial statements, of which amount \$20,550 and \$23,100 were taken into income during the year ended September 30, 1972 and 1971, respectively. The Company's equity in net assets of Borealis was approximately \$24,853 and \$24,590 at September 30, 1972 and 1971, respectively. These net assets consist primarily of deferred exploratory and administrative costs. Borealis is engaged in mineral exploration in northern Canada. In fiscal 1971 the Company acquired from Borealis a 20% direct interest in certain Melville Peninsula mining claims at a cost of \$99,550.

At December 31, 1971, the Company's equity in net assets of Smiley Gas Conservation Limited was approximately \$14,000 as compared to its investment and advances aggregating \$45,760 at that date.

3. Property and equipment

On August 27, 1968, the Company, through its subsidiary, Canso Oil & Gas, agreed to purchase a 25% interest in certain filings for federal leases in the State of Alaska. Initial consideration of \$1.00 (U.S.) per net acre was paid by the issuance of 42,596 shares of the Company's capital stock. Within thirty days of the date the leases are issued, an additional \$3.00 (U.S.) per net acre is payable in cash or shares of the Company's capital stock at the election of the Company, or the Company may elect to assign to the original lease applicants a net profits interest of 25% of the Company's interest in the leases issued. The Company will be reimbursed at the rate of 50¢ (U.S.) per acre, or equivalent stock, for each net acre for which leases are not issued. In July 1971, the Company made a payment of \$23,558 (10¢ per net acre) which may be applied to reduce the \$3.00 (U.S.) per net acre or the net profits interest assignable in the leases issued.

United Canso's interest in a nonproducing concession in Venezuela was acquired from Pancoastal, Inc. in 1961. Currently, United Canso's interest consists of a 50% interest in a sliding-scale royalty ranging from 3¢ to 8¢ per barrel on 50% of the gross production in excess of 5,000 barrels per day from the concession. The cost of United Canso's interest is being amortized over the remaining period of the concession rights, which expire in 1984.

The Company, through its newly-organized, wholly-owned subsidiary, United Canso Oil & Gas (U.K.) Ltd., has acquired petroleum licenses in the Irish Sea and in the North Sea.

The Company earned 7½% interests in properties located in the Cold Lake area of Alberta by contributing to the cost of two pilot steamflood projects. The Company participated in a third steamflood project but withdrew before earning any interest. These pilot projects have been terminated and the Company wrote off costs of \$914,004 relating thereto in fiscal 1971.

Lease rentals, work requirements and drilling commitments in connection with properties and property interests held by the Company at September 30, 1972 approximate \$1,465,000 for the year ending September 30, 1973.

At September 30, 1972, United Canso had issued notes aggregating \$26,085 to the Government of Canada because of uncompleted work requirements on various permits. These notes have been excluded from the accompanying consolidated financial statements, since they will be cancelled by the Government upon the completion of these work requirements.

4. The Catawba Corporation

United Canso's current (expiring April 1974) and prior contracts for financial, technical and other services with The Catawba Corporation (Catawba) have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by United Canso during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. During the year ended September 30, 1972 and 1971, the Company was charged \$176,434 and \$148,425, respectively, under this contract. Catawba provides similar services to the Australian companies, Borealis Exploration Limited, Magellan Petroleum Corporation, Pantepec International, Inc., Pancoastal, Inc. and Canada Southern Petroleum Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of United Canso and of the other companies mentioned above.

Notes to Financial Statements (continued)

5. Capital, stock purchase warrants, and stock options and reservations

During the two years ended September 30, 1972, stock purchase warrants were exercised for the purchase of 57,758 shares of the Company's capital stock with proceeds to the Company of \$302,179. The remaining warrants expired March 30, 1972.

Under the Company's incentive stock option plan, options to purchase shares had been granted to The Catawba Corporation for 100,000 shares and to officers and employees for 141,500 shares. During the two years ended September 30, 1972, employees exercised options on 7,500 shares at \$6.00 per share, as compared with market prices ranging from \$8.10 to \$8.72 per share on dates of exercise.

Stock options outstanding at September 30, 1972 are summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share)	Market price (per share) at date of grant
The Catawba Corporation	Jan. 12, 1968	Jan. 11, 1973	98,775	\$6.00	\$5.76
Officers	Jan. 12, 1968	Jan. 11, 1973	26,500	6.00	5.76
Employees	Jan. 12, 1968	Jan. 11, 1973	64,000	6.00	5.76
Employee	May 23, 1969	May 22, 1974	7,500	9.50	9.43
Employees	Jan. 27, 1972	Jan. 11, 1973	11,500	6.00	4.78
Employee	May 17, 1972	Jan. 11, 1973	3,000	6.00	5.32
			<u>211,275</u>		

At September 30, 1972, all of the above-mentioned options on 211,275 shares were exercisable. In addition, there were 16,150 shares reserved for future option grants at September 30, 1972. There were no other changes in stock options during the two years ended September 30, 1972.

The Company's by-law No. 6 provides that no person (as defined in such by-law) shall vote more than 1,000 shares.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Contributions by the Company to the pension plan on behalf of all employees were \$36,916 and \$41,728 for the year ended September 30, 1972 and 1971, respectively.

Certain employees and office facilities are shared with Canada Southern Petroleum Ltd. and certain of the costs and expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by United Canso, including contributions to a pension plan on their behalf, amounted to \$141,351 and \$147,517 for the year ended September 30, 1972 and 1971, respectively. Of these amounts, \$2,374 and \$2,875 were on behalf of directors and \$50,448 and \$53,293 were on behalf of officers. At September 30, 1972, there were seven directors and four officers, of which three officers were also directors.

Auditor's Report

The Board of Directors
United Canso Oil & Gas Ltd.

We have examined the consolidated balance sheet of United Canso Oil & Gas Ltd. at September 30, 1972 and 1971 and the related consolidated statements of income (loss) and accumulated deficit, of changes in financial position and of capital stock and capital in excess of par value for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to realize in the future the amounts at which investments and advances and nonproducing property and equipment are carried in the consolidated balance sheet (see Note 1), the statements mentioned above present fairly the consolidated financial position of United Canso Oil & Gas Ltd. at September 30, 1972 and 1971 and the consolidated results of operations and changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Hartford, Connecticut
December 1, 1972

Directors and Officers

Directors

Albert H. Barton
John W. Buckley
Priscilla L. Buckley
Benjamin W. Heath
Arthur B. O'Donnell
Roland J. Richardson
John T. Sinclair, Jr.

Officers

John W. Buckley
President

Roland J. Richardson
Vice President and General Manager

George Pilkington
Secretary and Treasurer

K. Ross Jordan
Assistant Secretary and Assistant Treasurer

B. D. Patterson
Assistant Secretary

Auditors

Arthur Young, Clarkson, Gordon & Co.

Transfer Agents

Montreal Trust Company, 15 King Street West, Toronto, 105, Ontario
The First Jersey National Bank, 2 Montgomery Street, Jersey City, N.J. 07303
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054

Inquiries or requests for additional information concerning United Canso Oil & Gas Ltd. should be addressed to the Company, c/o The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, or to 940 Eighth Avenue South West, Calgary, Alberta, Canada T2P1G2

